

# **Mobilizing supplier resources in new business ventures**

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## **1. (condensed) Background**

Research has shown that established businesses can benefit from mobilizing supplier resources and evidenced that mobilizing supplier relationships to access suppliers' resources can be the differentiating element of a firm's performance (e.g., Ellegaard & Koch, 2012; Gadde & Snehota, 2000; Ramsay & Wagner, 2009). Prior studies have shown that management efforts on the part of the buying firm can influence suppliers' commitment of resources to a customer (Ellegaard & Koch, 2012). From a supplier perspective, this can be viewed as an issue of customer attractiveness (e.g., Ellegaard, Johansen, & Drejer, 2003; Hald, Córdón, & Vollmann, 2009; Mortensen, Freytag, & Arlbjørn, 2008; Mortensen & Arlbjørn, 2012; Schiele & Vos, 2015; Tóth et al., 2014). This latter stream of research found that supplier's resource allocations to different customers reflect a customer's attractiveness. A customer is attractive if the supplier has a positive expectation of the relationship with this customer (Schiele, Calvi, & Gibbert, 2012). Extant research on mobilizing supplier resources and customer attractiveness focused mainly on established on-going businesses. Less is known on how new business ventures can benefit from mobilizing supplier resources. Drawing on suppliers, new ventures can extend their limited internal resources. Despite a broad consensus that in new ventures, leveraging external relationships can improve new ventures' performance, research on how new ventures mobilize suppliers' resources is more limited (Ciabuschi, Perna, & Snehota, 2012; Keating, Geiger, & McLoughlin, 2013; La Rocca et al., in press; Zaremba, Bode, & Wagner, 2016). Mobilizing supplier resources is conditional on suppliers finding the new venture attractive enough to motivate allocation of resources. Prior research has shown that established firms and new ventures differ in many important respects (Aldrich & Ruef, 2006; Su, Xie, & Li, 2011), with implications also for supply chain management (Kickul et al., 2011; La Rocca et al., in press; Zaremba et

al., 2016). That warrants to explore to what extent the scope for mobilizing supplier relationships in new ventures is different from the case of established firms (Zaremba et al., 2016) – which becomes our first research question. Our second research question becomes to examine the elements of attractiveness of new ventures for suppliers and to what extent these differ from the dimensions of customer attractiveness identified in previous studies. These two issues have guided our exploratory qualitative empirical data collection. We draw on three cases of new ventures in different contexts and investigate on the one hand the scope for mobilizing suppliers from the perspective of the new venture and on the other hand how suppliers perceive the attractiveness of the new venture. In all we build on 43 interviews with informants in both the new ventures and their suppliers.

## 2. (condensed) Findings and discussion

The empirical findings of this study, synthesized in Table 1 following our research questions (the solution under development, the scope for supplier mobilization and the elements of attractiveness), are based on three new ventures cases: ALA - a typical science-based venture and technology-driven start-up; BEA - a typical market-driven new venture (started from an idea of solution to a perceived problem); and SGS - a case of a new venture developed in an established business (MES). The three cases differ in terms of supplier resource mobilization and customer attractiveness.

**Table 1. Overview of the cases**

New venture	ALA	BEA	SGS (from MES)
Solution proposed	Airborne wind energy system (AWES): “proof of concept stage”	Primal Bee Hive “proof of market”	Smart GRID
Suppliers mobilized	<ul style="list-style-type: none"> <li>✓ Local industrial partner for test ground and test measurement equipment</li> <li>✓ Mid-sized Slovenian company (SL) for prototyping and testing. Supplier with adequate experience and equipment to construct and assemble the prototypes</li> <li>✓ ‘Academic research bodies’ engaged for development of control software</li> </ul>	<ul style="list-style-type: none"> <li>✓ Approached two important suppliers. Both identified through informal social connections. The first is IC - a medium sized producer of large plastic objects. IC introduced the second – DS a small producer of moulds. Needed to get production to start.</li> <li>✓ A third supplier US producer of plastic object (for larger scale production)</li> <li>✓ a small Swiss producer of electronic devices for production and assembly of the BeeCounter devices.</li> </ul>	<ul style="list-style-type: none"> <li>✓ approached three important suppliers:</li> <li>✓ Academic research institute for AI algorithms</li> <li>✓ L&amp;G – hardware – metering systems for the grid</li> <li>✓ OPT – system design and implementation</li> </ul>
Attractiveness	<ul style="list-style-type: none"> <li>✓ For current suppliers – interesting for technical know-how development &amp; prestige</li> </ul>	<ul style="list-style-type: none"> <li>✓ Some future business (relative volumes for the Italian suppliers)</li> <li>✓ Good volume of business (US producer)</li> </ul>	<ul style="list-style-type: none"> <li>✓ developing solution (in sight) for future needs (commercialization beyond the MES partner.</li> </ul>

	<ul style="list-style-type: none"> <li>✓ Attractive to the 'institutional funding bodies</li> <li>✓ unclear for industrial partners - equipment manufacturers (e.g. Siemens) getting only some attention but ...“interesting, come back when the solution idea is more developed”</li> </ul>	<ul style="list-style-type: none"> <li>✓ Possible internationalization</li> <li>✓ Leveraging 'social exchange'</li> </ul>	<ul style="list-style-type: none"> <li>✓ Prestige of institutional backing</li> <li>✓ Significant resource commitment</li> </ul>
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We discuss first the supplier resource mobilization and customer attractiveness case by case (2.1-2.3) and thereafter we the variations across the three cases (2.4).

### *2.1 Involving suppliers in the ALA case*

ALA is a rather typical science-based venture. It is developing a product (and service) solution based on a generic technology Airborn Wind Energy Systems (AWES). The attention of the management is on the technical aspects of the solution as engineering and constructing and developing a technically feasible and functionally workable product solution is a condition for starting-up a business venture. The development of the technical solution is internally driven which has consequences for the scope of mobilizing supplier resources. Supplier relationships in ALA are limited to the procurement of materials and components for the product prototypes under development and tested. Suppliers are approached with the logic of acquiring existing resources without actively engaging with suppliers. So far, ALA has not been concerned with the need or opportunities to mobilize supplier resources. Limited interest for actively mobilizing supplier resources depends, in part, on that the venture continues to be supported by funding bodies in its effort to develop the product. ALA's management is much concerned with protecting the intellectual property from potential imitators, including suppliers. However, as the solution concept matures, management is becoming aware that industrialization and commercialization implies defining the resources and competencies needed. Decisions are to be made about which resources to develop internally and which to mobilize through suppliers. Suppliers that have engaged with ALA so far (e.g., the academic research institutions, EPC companies, the supplier constructing the prototypes) have been attracted only to a certain degree by economic returns. Indeed, they see direct business with ALA within the foreseeable future as rather marginal. Suppliers appear motivated primarily by the “science content and prestige” of the project and by the possibility of monitoring and eventually acquiring some new technical know-how. Keeping abreast with technological developments possibly relevant to their own businesses in the future has been mentioned as a reason for engaging with ALA and allowing it to access some of their resources. The suppliers' resource commitment and risk are relatively limited. Suppliers are motivated by the prestige

and reputation of being associated with a “scientifically advanced project”. The “nobility” of actors and institutions with links to the project appears an important element of attractiveness for the suppliers. However, these clues have not been strong enough to mobilize suppliers like large system integrators (e.g., ABB or Siemens) who see few elements on which to make up judgment of ALA’s attractiveness. As ALA’s business model is yet not settled, it is difficult for the suppliers to determine how they could fit into ALA’s future business and what resources to allocate to the new venture.

### *2.2 Involving suppliers in the BEA case*

In the BEA case the solution concept under development (PBS) originates from a known and relatively well-defined problem (honeybee crisis). The problem is highly relevant to a distinct category of potential customers/users and the field application of the solution under development (PBS) is rather clear. As the actual product solution takes form, the need to industrialize and commercialize the solution is felt and management is aware of the necessity to mobilize suppliers to start developing the business. BEA draws on suppliers’ skills and competencies as well as their actual technological and organizational resources. They do not seem to see the eventual dependency on suppliers as a problem. While the suppliers have as yet little evidence of returns for them from the new venture, they rely on the promise of BEA and see it as a credible future customer/business partner. The fact that the PBS solution is well anchored to a specific application helps to clarify the nature and the entity of possible resource commitment and of the future costs and benefits from working with BEA. All three suppliers interviewed (DS, IC and BC) expect some direct sales to BEA in the near future. However, none of the three expects BEA to become one of their key customers. The expected sales potential and profitability from business with BEA appears limited. Suppliers’ decisions to allocate some resources and to make their know-how available to BEA appears based on reputation and social aspects. BC finds the project laden with CSR that is of interest as BC has social responsibility initiatives as an important part of their mission. Also, for DS and IC, the social significance of BEA’s beehives is among the reasons for their commitment and willingness to make some resources available to BEA. They emphasize personal motivations, appear to value personal relationships with BEA founders and stress this element of social exchange.

### *2.3 Involving suppliers in the SGS case*

The SGS new venture originates in a problem experienced by the mother company (MES) in its operations. The problem to solve and the application are thus rather well defined. Management is aware that solving

the problem requires a set of resources, skills, and capabilities that the venture (and its mother company) do not have and can only be mobilized through relationships with suppliers. The need to draw on external resources is clearly acknowledged. The boundaries between the new venture (SGS) and MES are fuzzy, which makes it difficult to discern whether efforts are undertaken by SGS or by MES and whether attractiveness is related to SGS or its mother company. The suppliers involved in the SGS project have been previously working with the mother company (MES). The SGS appears attractive for the suppliers to the extent that they are committing a non-marginal amount of resources to working with it. SGS is seen as an attractive partner because of the future business it could generate even if this future business potential is not expected directly from SGS as a customer. The direct returns to from SGS for the suppliers are likely to be limited, but they see promising business potential from other customers. As the SGS project is rooted in the specific context of managing utilities with which suppliers are familiar, it clarifies and facilitates the commitment of specific supplier capabilities and resources. L&G and OPT appear motivated by the possibilities of exploiting the technical solutions that they are co-developing with MES/SGS with their current customers. BKW sees business potential related to the possibility of developing new services with support of the SGS solution. The major element of attractiveness of SGS for the suppliers appears the possibility to develop distinctive new capabilities and competencies (technical and commercial) on which to capitalize on in their own businesses. This focus on the co-development of new solutions is driven by the trends the suppliers see in their businesses and the perceived necessity to innovate. A related issue is the suppliers' perception of a risk of "missing the train" of development. Engagement with an innovative new venture is seen as minimizing such a risk by pooling resources with others to achieve tangible effective business solutions.

#### *2.4 Variation in supplier resource mobilization and attractiveness of the new venture*

There are notable differences in the three cases in the scope of supplier resource mobilization and in the supplier perceived attractiveness of the new ventures. The scope of mobilizing suppliers in the SGS is well defined and specific; it is focused on definite resources and technical competencies to be combined for the new venture's project. Despite the limited scale of the project, the resources that suppliers commit to it are significant, in fact, greater than those MES is investing. The new venture management is clearly aware of the benefits of actively mobilizing supplier resources. The ALA case is in many ways an opposite situation. The scope of supplier mobilization is currently limited to sourcing of available (standard) materials and components needed for completing the prototype. There is no effort to mobilize suppliers

beyond acquisition of existing resources and, as a consequence, suppliers' resource commitment to ALA is minimal. The scope for mobilizing suppliers' resources in the BEA case is again different. It is not limited to the purchasing of existing products or to accessing some specialized competencies. BEA's management has been open to exploiting suppliers for learning in different ways. Suppliers of BEA have been mobilized and contributed to the design of the product (the Primal Bee System), but also to how BEA is going to organize its business, including the production and commercialization. On the whole, the scope for mobilizing supplier resources in the three ventures reflects the context of the venture (origins, previous experience) and the awareness and openness of the management for mobilizing suppliers.

Differences in the scope of supplier resource mobilization are related to different motivations of suppliers in making their resources available to the new ventures. The perceived attractiveness is quite different in the three cases. Potential business returns are the main factor in suppliers' commitment to SGS, even though such returns are not expected directly from the relationship with SGS. What makes SGS attractive is that participating in the project is expected to lead to new know-how and competencies to be subsequently exploited in their respective businesses (components, control system engineering, utility management) with other customers. Collaborating with parties that bring different perspectives and competencies is expected to help the suppliers to generate business from innovating. The suppliers' commitment to BEA is based on expected revenues from BEA, but promising as they are, this is not the only factor motivating suppliers make their resources available for the new venture. Social factors (societal importance and impact of the PBS solution) have a role in motivating the three suppliers. Two suppliers (DS and IC) appear to be motivated also by more personal factors (likability of the BEA's founders, their ethos and pathos) and what we can call the social exchange. The expected direct business for the suppliers in the ALA case is limited and far in the future. The resources allocated to ALA are quite limited. The attractiveness of ALA appears to be in keeping in touch with what is happening at the frontier of technical development but also, and perhaps mainly, the prestige of taking part in an advanced or ambitious project. Differences in the attractiveness of the three ventures as customers and partners can be explained by the ventures' contexts. However, an important factor explaining the attractiveness is also the business context of the supplier. SGS project is deemed attractive as the context of the suppliers could produce positive fall out in their business context that is undergoing transformation. BEA's suppliers see also direct benefits in their own businesses from the relationship with the new venture. In a period of economic crises hitting the industry even minor and emerging potential customers like BEA can be interesting. Whether the

association with ALA provides prestige and relevant contacts depends largely on the supplier context. Suppliers' commitment in the case of MES is related to the suppliers' own business.

Understanding customer's business model and context is an important factor of attractiveness. It can be best seen in the SGS case, where the business idea is rooted in a specific application that is well understood by the suppliers. It allows the supplier to understand and assess the potential of the venture. On the opposite extreme is the case of ALA where the unknowns of the specific application (and feasibility) bound suppliers' understanding of the possible business model and future potential and thus limits the scope for mobilizing suppliers. In the BEA case, the promise is based on a clearly identified application, which, as in the SGS case, permits the suppliers to assess more or less clearly the feasibility and potential of the business model of the customer and thus business potential and feasibility.

When direct clues for assessing the new venture's attractiveness as a business partner are limited, third-party and indirect relationships come to play a role in how attractive the new venture appears to suppliers. Involvement of third parties is a cue for the assessment of customer attractiveness. Suppliers of SGS perceive the new venture as attractive because of the reputation of other partners involved in the project and consider accessing the resources and competencies of the third parties as a motivator. Also, in BEA, the social links and indirect relationships have been useful for contacting potential customers and suppliers. In the case of the new venture of an established business, we can see how the perception of attractiveness of the new venture (SGS) reflects the previous satisfactory dealings of the suppliers with the mother company (MES).

### **3. (condensed) Conclusions**

Our findings from the three case studies lead us to two sets of propositions. First, with regards the scope for mobilizing supplier resources we found that it is related to the perceived need to rely on suppliers which appears to be more severe in the problem/market-driven new ventures than in science-based new ventures. Overall our findings suggest that in new ventures supplier resources tend to be mobilized to achieve development and structuring effects rather than for cost-efficiencies (Gadde, Håkansson, & Person, 2010; Gadde & Wynstra, 2017). Second, the elements of attractiveness of new ventures for established suppliers are significantly different from attractiveness of established businesses. In particular, elements of attractiveness of the new venture for suppliers are partly access to important resources and

social compatibility (Harris et al., 2003), but also the prominence of development effects as interacting with the new venture can be a driver of innovation for the supplier businesses (Kickul et al., 2011).

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